Organization & Compensation of Boards of Directors

by Edwin S. Mruk & James A. Giardina

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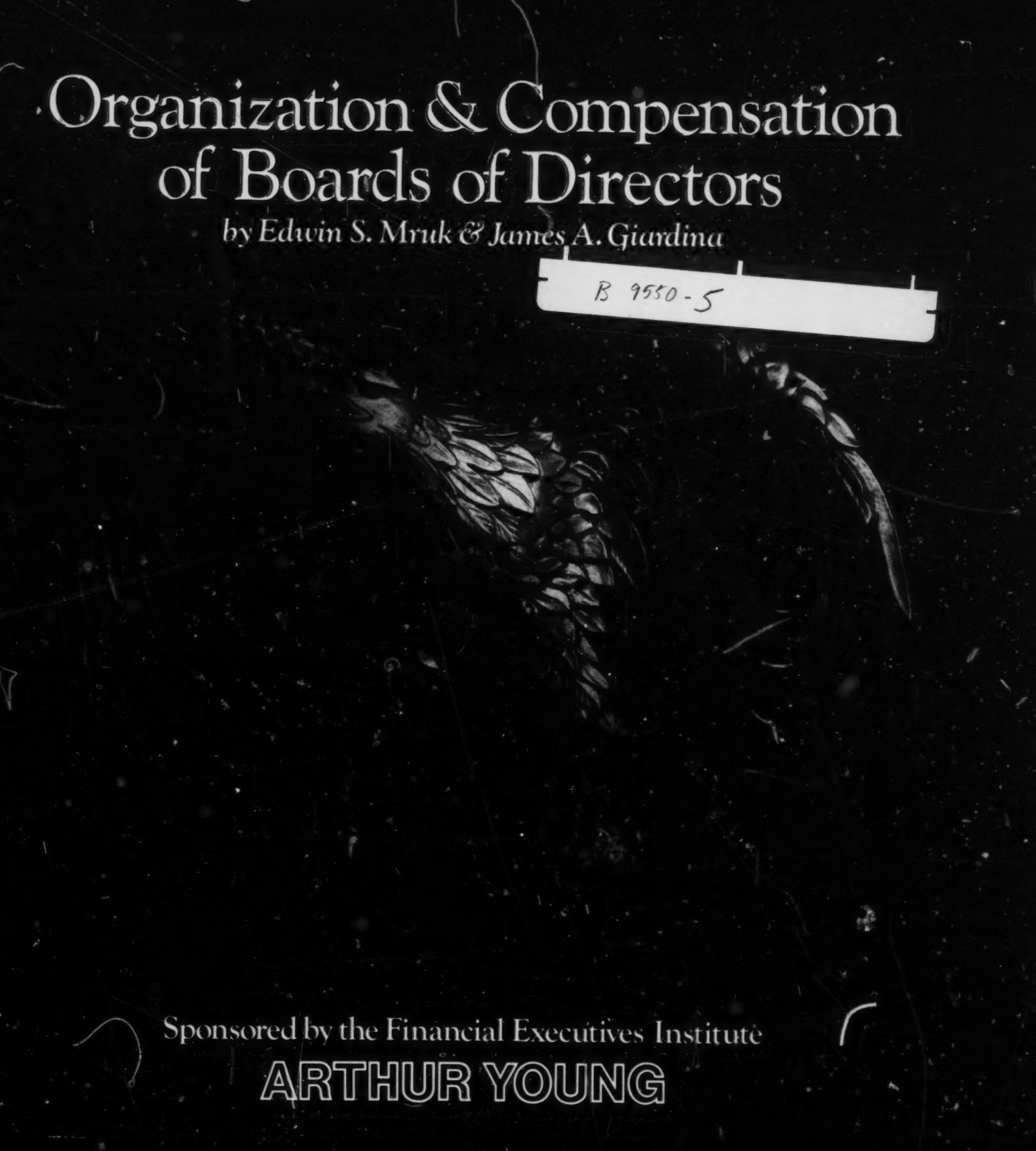

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Organization & Compensation of Boards of Directors

by Edwin S. Mruk and James A. Giardina of Arthur Young & Company

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Foreword

This report provides a summary of the organization and compensation of Boards of Directors of approximately 1,000 companies encompassing most industry classifications. This study was conducted by Edwin S. Mruk and James A. Giardina of Arthur Young & Company, under the sponsorship of the Financial Executives Institute.

Readers making direct comparisons between the study findings and their own companies should consider that there can be substantial differences in Board of Director responsibilities from one company to another.

Arthur Young & Company, the authors, and the Financial Executives Institute express their appreciation to all of the companies that provided the information on which this report is based. In addition, the authors gratefully acknowledge the assistance of Thomas S. Tilghman in the overall project management, and Carol B. Goodman and Yorgen H. Edholm in the preparation and analysis of the data.

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Introduction

During the past decade, a great deal of attention has been focused on the governance of publicly held corporations and the role of Boards of Directors. During the 1970s, the Securities and Exchange Commission (SEC) endorsed the concept of an independent Audit Committee of the Board of Directors of public corporations, and corporations listed on the New York Stock Exchange were required to have Audit Committees composed solely of directors who are independent of management. The governance of public corporations, specifically the maintenance of adequate accounting controls, was further regulated by the Foreign Corrupt Practices Act of 1977. While the critical spotlight of corporate oversight may have diminished somewhat, and proposals to amend the Foreign Corrupt Practices Act are under consideration by Congress, the issue of public accountability of public corporations is still of great concern to a number of public interest groups.

The SEC requires that publicly held companies disclose specific information about how they govern themselves. Companies must disclose whether their Boards have Audit, Compensation, and Nominating Committees, and the membership, number of meetings, and function of each committee. In addition, the rules require companies to disclose the names of members who attended less than 75% of the scheduled Board and committee meetings. Furthermore, the proxy must disclose a summary of the reason(s) furnished by a director who resigns or does not stand for reelection as a result of disagreement with management over operations, policies, or practices. In addition, certain relationships of nominees or directors such as family, employment, or business relationships with the company must be disclosed.

In 1976, the section of corporation, banking, and business law of the American Bar Association published a *Corporate Director's Guidebook* that includes a proposed model of standards of conduct, composition, and committee structure for Boards of Directors of publicly owned corporations. This was revised in 1978. According to the guidebook, an individual, by assuming the directorship, commits allegiance to the enterprise and acknowledges that the best interests of the corporation and its shareholders must pre-

vail over any individual interest he or she holds. In addition, the director assumes a duty to act carefully in fulfilling the important tasks of monitoring and directing the activities of corporate management. The fundamental responsibility of the individual director is to represent the interests of the shareholders in directing the business and affairs of the corporation within the law. Furthermore, the director should be concerned with the establishment and maintenance of an effective reporting system. The director should not be expected, however, to participate in the day-to-day management of the corporation's operations.

No maximum limitation on the size of a Board of Directors is recommended in the guidebook. However, it does recognize the fact that the corporation should use discretion in determining the optimum size necessary to accomplish three main objectives: the Board should be sufficiently large to allow nonmanagement directors to staff a minimum of three working Board committees, namely, the Audit, Compensation, and Nominating Committees; key members of senior management may serve on the Board, but nonmanagement directors should constitute the majority; and, finally, the Board should function effectively in terms of discussion and decision making. The Board may also want to establish Executive and Finance Committees to deal with related matters on an ongoing basis. Descriptions of the most common Board committees are presented later in this study.

A recent study by Arthur Young Executive Resource Consultants (AY/ERC) analyzes the profile of recently elected directors' backgrounds and experience as well as their views on such key questions as their most important responsibilities, their reasons for accepting a directorship, the types of company information they receive, and their involvement in long-range planning. The AY/ERC study, *The New Director, Changing Views of the Board's Role*, reports that Boards have become more active as a result of the SEC positions, stock exchange mandates, pressure from shareholder groups, and criticism in the business press. There is growing perception that, in addition to the interest of the shareholders, the Board is also responsible to the employees, customers, suppliers, and the community in which the corporation is located, whose welfare may be affected by the company's decisions. Boards are becoming more involved in major decisions that have a long-term impact on the stockholders. Under the broader view of the Board's responsibility, it would have such tasks as approving the chief executive officer's long-range and strategic plans for the company. This would include setting policies to guide management in mergers and acquisitions, research and development spending, new product development activities, and new market penetration.

Almost two-thirds of the directors in the AY/ERC study cited assuring the integrity of the company's operation as their major responsibility. A large proportion (58%) also viewed counseling top management as a primary task. More than half believed that assuring the presence and appropriateness of the strategic plan for the future was a major responsibility. Other Board responsibilities that were viewed as important were monitoring performance of the CEO (47%) and assuring management succession (43%).

In this study, we analyze the organization and compensation of Boards of Directors in publicly held companies and privately held companies to report on how Boards are structured to accomplish their objectives and fulfill their responsibilities.

Scope and Method of Study

Information concerning Board of Director organization and compensation practices was reported by companies representing a large number of industries. The data were analyzed separately for publicly and privately held companies. For each type of ownership, the data were further segmented and analyzed according to three major industry groupings: manufacturing, nonmanufacturing, and financial services.

Major Industry Groupings

The Manufacturing Group

This group of industries includes companies engaged in the manufacture of one or more products as their principal form of business. In order to provide a more detailed analysis, companies in this group were separated into two categories: manufacturers of durable goods and manufacturers of nondurable goods. Although study information for this group was gathered for companies comprising

a large number of industries, the analyses are heavily weighted by companies in the following classifications:

Durable Goods
Basic Materials
Electrical Machinery
Fabricated Metal Products
Instruments
Machinery
Primary Metals

Nondurable Goods
Chemicals and Petroleum
Food Products
Paper Products
Publishing
Textiles and Apparel
Transportation Equipment

The Nonmanufacturing Group

This group of industries includes companies engaged in the performance of one or more services as their principal form of business. While this group, by definition, includes a vast number of industries, the analyses presented in this report are weighted heavily by companies in the following classifications:

Business Services
Construction and Contracting
Mining
Retail Sales
Transportation
Utilities
Wholesale Trade

The Financial Services Group

This group of industries includes companies engaged in the performance of one or more financial services and companies whose income is derived primarily from the management of assets. The analyses for this group are weighted by companies in the following industry classifications:

Banking (Commercial)
Banking (Thrift Institutions)
Financial Holding and Investment
Insurance
Real Estate

Specific Industry Classifications

The 24 industries that have been included in this study are defined as follows:

Banking (Commercial)
Includes commercial banks, stock savings banks, and trust companies. Does not include mutual savings banks and other credit agencies. Standard Industrial Classification Codes*: 6000-6028.

Banking (Thrift Institutions)
Includes mutual savings banks and credit agencies, such as savings and loan associations, personal and business credit institutions, and mortgage bankers and brokers. Standard Industrial Classification Codes: 6032-6199.

Basic Materials
Companies engaged in the manufacture or production of rubber and plastic products; leather products; stone, glass, and clay products; lumber; and furniture and furniture fixtures. Does not include metal mining. Standard Industrial Classification Codes: 2400-2599, 3000-3299.

*Standard Industrial Classification Codes provide a means of classifying companies into industry groups. They are standardized four-digit codes prepared by the Technical Committee on Industrial Classification of the Bureau of the Budget, Executive Office of the President.

Business Services
Includes companies rendering services such as advertising, management consulting, and commercial research; and services rendered by engineers, architects, accountants, and writers. Standard Industrial Classification Codes: 7300-7399, 8900-8999.

Chemicals and Petroleum
Companies engaged in the processing of chemicals and chemical products and petroleum refining. Standard Industrial Classification Codes: 2800-2999.

Construction and Contracting
Includes all companies generally contracting for heavy construction: building, highway, bridge, tunnel, sewer, pipeline, power line, plumbing, electrical, carpentry, etc.; and other miscellaneous trade classifications, such as glazing, roofing, sheetmetal work, etc. Standard Industrial Classification Codes: 1500-1799.

Electrical Machinery
Companies engaged in the manufacture of electrical machinery, equipment, and supplies. Standard Industrial Classification Codes: 3600-3699.

Fabricated Metal Products
Companies engaged in fabricating ferrous and nonferrous metal products, such as metal cans, tinware, hand tools, general hardware, fabricated structural metal products, etc. Does not include manufacturers of ordnance, machinery, or transportation equipment. Standard Industrial Classification Codes: 3400-3499.

Financial Holding and Investment
Companies engaged in the management of assets as their principal form of business, as well as holding companies having subsidiaries whose principal businesses represent more than one area of financial service. Standard Industrial Classification Codes: 6700-6799.

Food Products
Companies engaged in the preparation of meat products, bakery products, beverages, confectionery and related products, grain mill products, and other food products. Standard Industrial Classification Codes: 2000-2099.

Instruments
Companies engaged in the manufacture of scientific and control instruments, photographic and optical goods, and watches and clocks. Standard Industrial Classification Codes: 3800-3899.

Insurance
Companies engaged in the sale of general, health, life, bank deposit, and title insurance. Also includes surety companies and insurance agents and brokers. Does not include property and casualty companies. Standard Industrial Classification Codes: 6300-6499.

Machinery
Companies engaged in the manufacture of heavy machinery, such as steam engines, farm machinery and equipment, construction machinery, elevators, machine tools, textile machinery, etc. Does not include transportation equipment. Standard Industrial Classification Codes: 3500-3599.

Mining
Companies engaged in the mining of metal, coal, and other minerals. Also includes related mining services. Standard Industrial Classification Codes: 1000-1499.

Paper Products
Companies engaged in the manufacture of pulp, paper and paperboard, and converted products such as coated paper, paper bags, paper boxes, and envelopes. Does not in-

clude abrasive, carbon, or photosensitized paper products. Standard Industrial Classification Codes: 2600-2699.

Primary Metals
Companies engaged in metals processing, such as smelting, refining, rolling, drawing, extruding, forging, casting, and blast furnace and foundry operations. Standard Industrial Classification Codes: 3300-3399.

Publishing
Companies engaged in the printing and publishing of books, periodicals, and newspapers; or in commercial printing, engraving, typesetting, photoengraving, electrotyping, bookbinding, greeting card and business form publishing, etc. Standard Industrial Classification Codes: 2700-2799.

Real Estate
Includes real estate operators, developers, agents, and brokers. Standard Industrial Classification Codes: 6500-6599.

Retail Sales
Retail outlets marketing general merchandise, food products, automobiles, apparel, furniture, and home furnishings. Also includes restaurants. Standard Industrial Classification Codes: 5300-5999.

Textiles and Apparel
Companies engaged in basic textile production (yarn production, dyeing, cloth printing) and manufacture of apparel and other products using basic textiles as raw material. Standard Industrial Classification Codes: 2200-2399.

Transportation
Railroads; motor, air, and water transportation companies; and motor freight and pipeline transportation companies. Standard Industrial Classification Codes: 4000-4799.

Transportation Equipment
Companies engaged in manufacturing equipment for transportation of passengers and cargo by land, air, and water. Includes the manufacturers of motor vehicles, aircraft, boats, and railroad equipment. Standard Industrial Classification Codes: 3700-3799.

Utilities
Companies engaged in distribution of electricity, gas, and water, and manufacturers of sewage and irrigation systems. Standard Industrial Classification Codes: 4900-4971.

Wholesale Trade
Companies engaged as jobbers, distributors, or wholesalers of a variety of products. Standard Industrial Classification Codes: 5000-5299.

Boards of Directors in Publicly Held Companies

Organization of the Board

Composition of the Board

The number of directors on corporate Boards has increased slightly since our previous study was conducted two years ago. The Boards of financial services companies tended to be larger than those of either manufacturing or nonmanufacturing companies, reporting an average of 16 directors compared to 12 for each of the latter industry groups (see Tables 1 through 3). This represents an increase over the averages reported in our previous study—15 directors in financial services companies and 11 directors in manufacturing and nonmanufacturing companies.

The data from this year's study are consistent with those of our previous study in showing that the number of directors in publicly held companies tends to increase gradually as company size increases in all three industry groups studied. The only exception to this trend was that financial services companies with assets in the $10-25 million range reported an average of 14 directors. This figure was much higher than the average of eight to nine Board members reported by companies with $25 million to $100 million in assets and was closer to the figures reported by companies with assets from $100 million to $1 billion.

On an individual industry basis, the Boards of manufacturing and nonmanufacturing industries studied were similar in size, averaging from 10 to 14 Board members. The variance among the financial services industries was much greater. Consistent with the findings of our last study, commercial banks reported the largest Boards, averaging 19 directors. This year the real estate industry reported the smallest Boards, averaging 8 directors (see Table 4). On average, the size of the Board in a given industry increased by one member from that reported in the 1979 study.

The recent study by AY/ERC, *The New Director, Changing Views of the Board's Role*, reports that the evolving stronger role for the Board calls for directors who can contribute independent judgment. Coincidentally, an average of 72% of the Board members of the nearly 800 responding publicly held companies in this year's study were nonmanagement directors. This is higher than the 65% reported in the previous study. Of the three industry groups, financial services companies reported the largest proportion of nonmanagement directors—82%, compared to 69% in both the manufacturing and nonmanufacturing industry groups. The percentage of nonmanagement directors was found to differ somewhat among the 24 industries. The banking industries reported the highest percentage of nonmanagement directors (85% in commercial banking and 82% in thrift institutions), while the lowest percentages were reported by the business services and wholesale trade industries (61% and 62%, respectively).

On average, only 9% of all nonmanagement Board members were "affiliated directors." That is, they have recently engaged in, or propose to engage in, transactions that are material to the corporation, or they have

Table 1

BOARDS OF DIRECTORS IN PUBLICLY HELD COMPANIES: Manufacturing Industry Group

Average composition and average number of meetings per year, by sales volume

SALES VOLUME	Management Directors	Nonmanagement Directors	Number of Directors	Number of Meetings per Year
Under $10 Million	33%	67%	9	6
$10–25	28	72	8	5
$25–50	36	64	9	5
$50–100	30	70	8	5
$100–200	33	67	10	5
$200–500	33	67	11	7
$500–1 Billion	31	69	12	7
$1–2	31	69	14	7
$2–5	25	75	14	8
$5–10	35	65	15	9
Over $10 Billion	28	72	19	10
Average	31	69	12	7

Table 2

BOARDS OF DIRECTORS IN PUBLICLY HELD COMPANIES: Nonmanufacturing Industry Group

Average composition and average number of meetings per year, by sales volume

SALES VOLUME	Management Directors	Nonmanagement Directors	Number of Directors	Number of Meetings per Year
$10–25 Million	42%	58%	8	6
$25–50	31	69	9	5
$50–100	24	76	10	6
$100–200	31	69	10	6
$200–500	32	68	11	6
$500–1 Billion	29	71	12	6
$1–2	33	67	14	7
$2–5	30	70	15	8
$5–10	*	*	*	*
Over $10 Billion	25	75	15	10
Average	31	69	12	6

**Insufficient data*

close family ties to a key member of management. The smallest percentage of affiliated directors, 6% of the nonmanagement Board members, was reported in the financial services industry group. The manufacturing and nonmanufacturing industry groups reported that 10% and 9%, respectively, of their nonmanagement directors were affiliated directors. The percentage of nonmanagement directors who were affiliated varied widely among the different industries, ranging from 4% in the commercial banking and transportation equipment industries to 15% in the instruments industry.

Number of Meetings

Meetings of full Boards of Directors have been held less frequently as Board committees have become more prevalent. The average number of Board meetings per year ranged from six in the nonmanufacturing industry group to eight among financial services companies (see Tables 1 through 3). On an overall basis, this represents a decline of one or two meetings per year compared to the average reported in the previous study.

In both the manufacturing and nonmanufacturing industry groups, the largest companies (those with sales volumes of $2 billion or more) reported the greatest average number of meetings (eight to ten). However, in the financial services industry group, it was the medium-sized companies (those with assets from $200 million to $1 billion) that reported having the most meetings (ten to eleven).

On an individual industry basis, commercial banking companies reported the largest average number of meetings per year, ten. The smallest number of Board meetings, five, was reported by each of three industries: basic materials, insurance, and wholesale trade (see Table 4).

Table 3

BOARDS OF DIRECTORS IN PUBLICLY HELD COMPANIES: Financial Services Industry Group

Average composition and average number of meetings per year, by assets

ASSETS	Management Directors	Nonmanagement Directors	Number of Directors	Number of Meetings per Year
$10–25 Million	15%	85%	14	5
$25–50	23	77	8	4
$50–100	26	74	9	4
$100–200	19	81	14	8
$200–500	19	81	16	11
$500–1 Billion	18	82	16	10
$1–2	16	84	19	8
$2–5	18	82	19	8
$5–10	20	80	20	9
Over $10 Billion	18	82	19	8
Average	18	82	16	8

Table 4

BOARDS OF DIRECTORS IN PUBLICLY HELD COMPANIES:
Average composition and average number of meetings per year, by industry

INDUSTRY	Management Directors	Nonmanagement Directors	Number of Directors	Number of Meetings per Year
MANUFACTURING GROUP				
Durable Goods				
Basic Materials	29%	71%	11	5
Electrical Machinery	33	67	10	7
Fabricated Metal Products	30	70	11	6
Instruments	28	72	10	7
Machinery	30	70	10	6
Primary Metals	28	72	12	8
Nondurable Goods				
Chemicals and Petroleum	31	69	13	8
Food Products	30	70	13	7
Paper Products	30	70	12	6
Publishing	34	66	14	6
Textiles and Apparel	35	65	12	6
Transportation Equipment	31	69	12	6
NONMANUFACTURING GROUP				
Business Services	39	61	10	6
Construction and Contracting	35	65	10	6
Mining	30	70	12	7
Retail Sales	34	66	11	6
Transportation	27	73	13	7
Utilities	25	75	13	8
Wholesale Trade	38	62	10	5
FINANCIAL SERVICES GROUP				
Banking (Commercial)	15	85	19	10
Banking (Thrift Institutions)	18	82	15	8
Financial Holding and Investment	23	77	15	8
Insurance	24	76	14	5
Real Estate	29	71	8	6
Average	28	72	13	7

Committees of the Board

Since our last study two years ago, more corporate Boards have adopted the committee structure. Committees enable nonmanagement directors to have greater involvement in sensitive areas such as the review of the integrity of financial reporting and internal financial controls, Board composition, and the selection and compensation of key members of management. Each director cannot be expected to keep abreast of all the details requiring Board deliberation. Therefore, the committee structure is an efficient way of managing the information flow and the decision-making process. Were it not for the committee structure, the full Board would have to meet more frequently, and the amount of time spent by directors on Board activities would be greater than the typical 8 to 12 hours per month reported in *The New Director, Changing Views of the Board's Role.*

In the publicly owned companies that provided information, the most prevalent committees were the Audit and Compensation Committees which, along with Nominating Committees, are required for companies listed on the New York Stock Exchange, and Executive Committees. Fewer than half of the respondents reported having Nominating and Finance Committees. However, each of the five committees was more prevalent this year than it had been in our previous study. For example, 88% of the companies in this year's study had an Audit Committee, compared

to 75% in the previous study; 74% had a Compensation Committee, compared to 61% in the previous study; and 34% had a Nominating Committee, compared to 19% previously.

As described later in this report, the percentage of committee members who are nonmanagement directors has increased since the 1979 study, but the number of members and the number of meetings has remained the same.

Larger companies are more likely to have committees due to the more complex responsibilities of their Boards as well as the NYSE requirements. Smaller companies and those not listed on the NYSE are less likely to have committees. For example, among manufacturing and nonmanufacturing companies, less than 25% of the companies with sales below $200 million reported having a Nominating Committee, while over 75% of those with sales in excess of $5 billion reported having such a committee.

Functions of Committees

Audit Committee

According to the American Bar Association's *Corporate Director's Guidebook*, the Audit Committee, in its capacity as the communication link between the Board of Directors and the independent auditors, should have primary responsibility for the following functions:

- To recommend the appointment of independent auditors.
- To consult with the persons chosen to be the independent auditors with regard to the plan of the audit.
- To review, in consultation with the independent auditors, their report of audit or proposed report of audit and the accompanying management letter.
- To consult with the independent auditors regarding the adequacy of internal controls.

While working closely with both management and the directors, the Audit Committee should remain sufficiently detached from both to be able to objectively evaluate their positions and, ultimately, their competence and character. The Audit Committee should seek out the opinions of company management about the quality of audit personnel, their efficiency in planning and conducting the audit, and their ability to identify and help correct deficiencies in the accounting and internal controls. In turn, the auditors should disclose to the Audit Committee whether management has an information system designed to generate the input needed for sound decision making and whether that system is functioning properly. They can and should provide assurance within reasonable limits that the corporation's policies—as well as legal and ethical codes—are being honored in practice by management and employees and that internal controls are adequate and functioning.

Compensation Committee

The AY/ERC report entitled *The New Director, Changing Views of the Board's Role* reported that compensation of top management was the Board's strongest area of influence. The Compensation Committee plays a key role in this regard. More and more, Compensation Committees are assuming a strategic as well as an administrative role. Strategically, a Compensation Committee should consider how the overall goals and objectives

of the corporation can be achieved through an appropriate compensation philosophy. Administratively, these committees review salary progression, bonus allocations, stock awards, and the awards of supplemental benefits, as well as perquisites for key executives.

The Compensation Committee should have the responsibility for approving the compensation arrangements for senior management of the corporation. This committee should also approve the adoption of any compensation plans in which officers and directors of the corporation are eligible to participate, as well as the granting of stock options or other benefits under such plans. Other responsibilities of the Compensation Committee may include the following:

- Approving compensation philosophy and guidelines for the entire executive and managerial group.
- Serving in a review function overseeing the role and performance of the chief executive, especially as these affect compensation.
- Establishing an appropriate compensation level for the CEO based on a review of compensation practices for CEOs and executives in their own industry as well as other industries. The review should also consider the company's compensation philosophy, goals, and objectives.
- Reviewing the chief executive's recommendations for the compensation, including bonus allocation, of individuals in the management group.
- Reviewing the management succession program. Since the Compensation Committee must review the performance of all key personnel to determine compensation allocation, this group is uniquely equipped with an in-depth knowledge of management's strengths and weaknesses.

To fulfill these responsibilities, the Compensation Committee should rely on the recommendations of the chief executive, its own analysis of compensation data, and, if necessary, the expert analysis of outside advisers.

The Compensation Committee is generally not concerned with the individual compensation of all employees but concentrates its efforts on programs and policies relative to the compensation of key executives. The committee must be independent of management so that it can become a truly effective tool for corporate governance on behalf of stockholders and can provide management with objective guidance and support in matters concerning compensation.

Nominating Committee

A Board of Directors is only as strong and effective as the individuals who serve on it. Therefore, the effectiveness of the Nominating Committee lies in its ability to create a strong, viable, and dynamic Board that can work effectively with management in meeting the challenges facing the corporation.

The Nominating Committee is certainly the keystone Board committee in developing a Board of Directors that is independent of management. Without a strong Nominating Committee made up of nonmanagement directors, new members of the Board tend to be selected by management. Such candidates may be somewhat less objective in reviewing management's performance and plans than if they were independently proposed by nonmanagement members of the Board.

Nominating Committees (and nonmanagement directors who serve on such committees) which are experienced in the search process for Board member candidates also play a key role in selecting key corporate

executives by evaluating internal and external candidates. For this reason, Nominating Committees are also assigned the task of reviewing top management succession planning.

The basic responsibility of the Nominating Committee is to carry out a thorough search and screening process to identify candidates for Board vacancies. To fulfill this responsibility, the Nominating Committee should consider the broader issues of composition and organization of the Board, including committee assignments and individual Board membership.

In addition, the Nominating Committee should review candidates recommended by individual shareholders and other interested parties. Because the chief executive officer is in an excellent position to understand the personnel needs of the Board, the Nominating Committee should work with him or her to develop candidate specifications for Board membership. In order to identify and generate a flow of information on the most desirable Board candidates, the Nominating Committee should also establish a resource system, which draws upon the assistance of both staff members and outside advisers.

Fifty-six percent of the directors in *The New Director, Changing Views of the Board's Role* indicated that they had been selected for the Board on the basis of prior contact with management, compared to 22% for whom the form of introduction was another director or the Nominating Committee. According to the results of this year's study, the number of companies reporting Nominating Committees has approximately doubled in the past two years.

The Nominating Committee should discuss potential candidates with the full Board prior to discussions with the candidates themselves. This gives Board members a chance to express any reservations they may have about a potential candidate and precludes the possibility that the Board will later have to deny the nomination of a candidate who has already been asked whether he or she would like to serve.

Executive Committee

The purpose of establishing an Executive Committee and granting it broad powers is to assure that important matters that arise between Board meetings and that cannot wait for the next scheduled meeting will receive timely attention. The Executive Committee will often serve as a sounding board for general management problems or matters that affect the corporation as a whole.

A number of companies will assign directors to this committee who are retired chief executive officers or other senior management executives of the company to keep them involved in the management process. Often the chairmen of key Board committees serve as members of the Executive Committee.

Finance Committee

The Finance Committee is primarily involved with financial decisions and planning. The committee's responsibilities and duties include:

- Keeping informed on a timely basis about the company's financial status.
- Evaluating the financial information it receives and developing conclusions as to any plan of action that is needed.
- Advising corporate management, as well as the Board, on financial matters.

In some cases, the Finance Committee has the authority to act for the full Board between meetings, but generally it is not empowered to act on its own.

Composition of Committees

In general, the data showed that larger companies were more likely to have a particular committee than were smaller companies. Most committee members were nonmanagement directors. Nonmanagement directors on Audit, Nominating, and Compensation Committees averaged at least 84% of the committee membership, compared to 61% to 73% on Executive and Finance Committees. The average Board committee had five directors who met four times a year.

Table 5 shows the average composition and number of meetings per year for each committee. Tables 6 through 8 show the percentage of companies in each industry group that reported having each of the committees by company size. Table 9 shows the average number of meetings per year by industry group.

Audit Committee

The Audit Committee was found to be the most common, regardless of industry or company size. Eighty-eight percent of the respondents (compared to 75% in 1979) reported having this committee; the industry groups varied only slightly in this regard. Even among the smallest companies—those with sales or assets below $50 million—76% reported having an Audit Committee. This in part reflects the audit requirements established for companies whose stock is traded on the New York Stock Exchange, as well as the interest shown by the Securities and Exchange Commission in the membership and activities of the committee.

The average Audit Committee had four members. Ninety-six percent of the members of the committee for whom data were reported were nonmanagement directors. The average number of meetings per year held by this committee was three, a figure similar to that reported in the 1979 study.

Compensation Committee

Overall, the prevalence of Compensation Committees was second only to the Audit Committees among the responding companies. The incidence of this committee tended to increase with company size in all of the industry groups. However, the prevalence among industry groups varied slightly—from 79% among manufacturing companies to 72% and 70% among nonmanufacturing and financial services companies, respectively. This is a substantial increase over the 61% reported in the 1979 study.

Ninety percent of the Compensation Committee members for whom data were reported were nonmanagement directors. Like the Audit Committee, the average Compensation Committee had four members and met three times a year. These results show no substantial change in the size of membership or number of meetings from our previous study.

Table 5

BOARDS OF DIRECTORS IN PUBLICLY HELD COMPANIES: Average composition of committees and average number of meetings per year

COMMITTEE	Management Directors	Nonmanagement Directors	Number of Directors	Number of Meetings per Year
Audit	4%	96%	4	3
Compensation	10	90	4	3
Nominating	16	84	4	2
Executive	39	61	6	6
Finance	28	72	6	5
Other	27	73	5	5
Average	19	81	5	4

Table 6

BOARDS OF DIRECTORS IN PUBLICLY HELD COMPANIES:
Manufacturing Industry Group
Percentage having committees, by sales volume

SALES VOLUME	Audit	Compensation	Nominating	Executive	Finance	Other
Under $10 Million	67%	50%	17%	50%	33%	0%
$10–25	75	75	8	8	0	8
$25–50	88	81	16	44	3	6
$50–100	86	78	22	44	11	22
$100–200	84	73	18	49	10	25
$200–500	92	77	31	59	19	26
$500–1 Billion	91	76	39	63	28	19
$1–2	96	89	53	80	22	38
$2–5	90	85	54	71	44	27
$5–10	92	85	77	69	54	69
Over $10 Billion	100	100	70	90	40	60
Average	89	79	36	59	22	26

Table 7

BOARDS OF DIRECTORS IN PUBLICLY HELD COMPANIES:
Nonmanufacturing Industry Group
Percentage having committees, by sales volume

SALES VOLUME	Audit	Compensation	Nominating	Executive	Finance	Other
$10–25 Million	73%	64%	0%	27%	9%	0%
$25–50	75	42	17	42	0	8
$50–100	87	60	13	40	13	27
$100–200	85	48	19	48	7	11
$200–500	88	73	32	52	17	27
$500–1 Billion	92	82	38	67	21	28
$1–2	89	86	43	64	36	21
$2–5	91	87	70	78	43	48
$5–10	*	*	*	*	*	*
Over $10 Billion	100	100	100	60	60	100
Average	87	72	35	56	21	29

** Insufficient data*

Table 8
BOARDS OF DIRECTORS IN PUBLICLY HELD COMPANIES:
Financial Services Industry Group
Percentage having committees, by assets

ASSETS	Audit	Compensation	Nominating	Executive	Finance	Other
$10–25 Million	63%	38%	13%	63%	25%	25%
$25–50	70	60	0	60	30	20
$50–100	78	44	0	78	0	22
$100–200	82	68	29	71	25	43
$200–500	88	69	19	65	15	31
$500–1 Billion	86	57	24	67	10	29
$1–2	95	59	36	77	9	41
$2–5	100	91	39	85	27	45
$5–10	86	79	21	86	21	29
Over $10 Billion	87	80	80	73	40	53
Average	87	70	29	74	20	36

Table 9
BOARDS OF DIRECTORS IN PUBLICLY HELD COMPANIES:
Average number of meetings per year, by industry group

INDUSTRY GROUP	Audit	Compensation	Nominating	Executive	Finance	Other
Manufacturing						
Durable Goods	3	3	2	3	4	3
Nondurable Goods	3	4	2	5	4	3
Nonmanufacturing	3	3	2	5	4	3
Financial Services	4	3	2	10	9	9
Average	3	3	2	6	5	5

Nominating Committee

An average of 34% of the respondents reported having Nominating Committees. This represents a significant increase over the 19% reported in the previous study. This committee was far more prevalent among larger companies, especially those in the manufacturing and nonmanufacturing industries, than among smaller companies. The majority of manufacturing companies with sales in excess of $1 billion and nonmanufacturing companies with sales of over $2 billion have Nominating Committees. Fewer companies

in the financial services industry group reported Nominating Committees than did the manufacturing or nonmanufacturing companies (29% compared to 36% and 35%, respectively). Like both the Audit and Compensation Committees, Nominating Committees had an average of four members, most of whom (84%) were nonmanagement directors. This is similar to the figures reported in our previous study. However, this committee met fewer times than any other, averaging only two meetings a year (the same frequency reported in the previous study).

Executive Committee

Executive Committees were more commonly found in the financial services industry group (74%) than in either manufacturing companies (59%) or nonmanufacturing companies (56%). In our last study, 51% of all companies reported having Executive Committees. One of the reasons for a decline in the number of full Board meetings may be the increased use of this committee. Executive Committees were more prevalent in the financial services industry group than in the manufacturing and nonmanufacturing industry groups. This might reflect the larger size of the Boards of financial services companies, and the large volume of operating business decisions in this industry group that require Board approval.

On average, Executive Committees had six members, up from the five reported in the previous study, and met six times a year—more frequently than any other committee. In financial services companies, these committees tended to be larger than average—seven members, compared to five in the other industry groups. On average, they also met twice as frequently as those in manufacturing and nonmanufacturing companies—ten times a year compared to four and five meetings, respectively. The number of meetings is down slightly from the previous study.

Sixty-one percent of the members of this committee were nonmanagement directors, compared to 52% in the previous study. This percentage was lower than that of any other committee, and may reflect this committee's large management role.

Finance Committee

Finance Committees were reported by only 21% of the companies surveyed—far fewer than any other committee, but more than the 16% reported in the previous study. There was little variance among the industry groups in this regard. In both the manufacturing and nonmanufacturing industry groups, Finance Committees were more prevalent in larger companies; this tendency was not evident among the financial services companies, however.

On average, our data showed that Finance Committees had six members, 72% of whom were nonmanagement directors. In comparison, in 1979 this committee had five members, of whom 63% were nonmanagement directors. The Finance Committee met approximately five times a year (unchanged from 1979)—almost as frequently as the Executive Committee.

In financial services companies, the Finance Committees, like the Executive Committees, tended to be larger than those of other companies (seven versus five members) and to hold twice as many meetings per year (nine versus four). This shows a change from our last study, in which financial services companies reported four meetings per year. This change may reflect the growing need for financial services companies to deal with recent inflation, soaring interest rates, and changing laws regulating the industry.

Director Compensation

Nonmanagement Directors

With the expansion of the Board's role and the increase in time spent by nonmanagement directors on Board activities, compensation of nonmanagement directors has taken on greater importance. For example, there is a growing interest among companies to implement deferred compensation plans that would allow directors to collect payment after retirement when their total income is likely to be less and to be taxed at a lower rate.

Table 10

BOARDS OF DIRECTORS IN PUBLICLY HELD COMPANIES: Manufacturing Industry Group—Durable Goods
Percentage of companies compensating nonmanagement directors, by sales volume

SALES VOLUME	Retainer and Meeting Fee	Retainer Only	Meeting Fee Only	All Forms Combined
Under $10 Million	25%	25%	50%	100%
$10–25	50	17	33	100
$25–50	52	24	16	92
$50–100	70	13	13	96
$100–200	61	30	0	91
$200–500	74	21	0	95
$500–1 Billion	68	28	4	100
$1–2	94	6	0	100
$2–5	85	15	0	100
$5–10	100	0	0	100
Average	70	20	6	96

The results of this study showed that 97% of the responding publicly held companies provided some form of compensation to their nonmanagement directors. Seventy-two percent of all respondents reported paying both a retainer and a meeting fee, 13% paid only a retainer, and 12% paid only a meeting fee. Overall, there was no substantial difference between total compensation paid to directors receiving both retainers and meeting fees, and that paid to directors receiving only retainers. However, Board members whose sole form of remuneration was meeting fees were generally paid less than their colleagues.

During 1980, on an overall basis, nonmanagement directors' compensation increased 13% for companies that pay retainers and meeting fees, 11% for companies that pay retainers only, and 10% for companies that pay meeting fees only. It is not surprising that the AY/ERC study, *The New Director, Changing Views of the Board's Role*, indicated that over 25% of nonmanagement directors believe that they do not receive compensation commensurate with their increased responsibility and effort.

Tables 10 through 17 provide information on compensation by industry group. The percentage of companies that reported compensating directors is provided in Tables 10, 12, 14, and 16. Data on the levels of compensation by method of payment can be found in Tables 11, 13, 15, and 17. Table 18 provides data on compensation levels by individual industry.

Companies Paying Both Retainers and Meeting Fees

In general, the use of a combination of retainers and meeting fees to compensate nonmanagement directors increased with company size. This trend existed in all industry groups surveyed. Overall, an average of 63% of the companies with sales or assets below $1 billion used both types of compensation, compared to 89% of the larger companies. As shown in Tables 10 through 13, nondurable goods manufacturing companies were more likely to pay both retainers and meeting fees (82%) than were companies in the durable goods manufacturing and nonmanufacturing industries (70% each) and the financial services industries (67%).

Overall, total compensation paid to directors was slightly higher in companies paying both a retainer and a meeting fee than in companies paying only a retainer ($10,930 when all meetings were attended versus $9,950), and was substantially greater than compensation paid to directors on the basis of a meeting fee alone ($2,660 if all meetings were attended). Total compensation paid to Board members generally increased with company size, regardless of industry group.

On average, nondurable goods manufacturing companies that used the combination method of payment paid their directors more than did companies in the other industry groups—nearly 20% more than durable goods manufacturers, 30% more than nonmanufacturing companies, and almost 80% more than financial services companies. On an individual industry basis, the chemicals and petroleum industry paid the highest average level of compensation. Directors in commercial banking companies using this method received the lowest average total remuneration.

Table 11

BOARDS OF DIRECTORS IN PUBLICLY HELD COMPANIES: Manufacturing Industry Group—Durable Goods
Average compensation of nonmanagement directors, by sales volume

SALES VOLUME	Retainer and Meeting Fee†	Retainer Only	Meeting Fee Only
$10–25 Million	$ 5,170	*	$390
$25–50	5,050	$ 5,800	430
$50–100	7,600	4,800	830
$100–200	8,570	8,940	*
$200–500	11,320	11,440	*
$500–1 Billion	13,400	12,660	*
$1–2	14,960	*	*
$2–5	17,710	19,630	*
$5–10	19,640	*	*
Average	11,590	10,260	530

† Assuming all meetings are attended
** Insufficient data*

Table 12

BOARDS OF DIRECTORS IN PUBLICLY HELD COMPANIES: Manufacturing Industry Group—Nondurable Goods
Percentage of companies compensating nonmanagement directors, by sales volume

SALES VOLUME	Retainer and Meeting Fee	Retainer Only	Meeting Fee Only	All Forms Combined
$25–50 Million	50%	0%	33%	83%
$50–100	80	0	20	100
$100–200	74	13	13	100
$200–500	82	11	7	100
$500–1 Billion	74	15	4	93
$1–2	96	0	0	96
$2–5	88	8	0	96
$5–10	100	0	0	100
Over $10 Billion	62	38	0	100
Average	82	9	5	96

Table 13

BOARDS OF DIRECTORS IN PUBLICLY HELD COMPANIES: Manufacturing Industry Group—Nondurable Goods
Average compensation of nonmanagement directors, by sales volume

SALES VOLUME	Retainer and Meeting Fee†	Retainer Only	Meeting Fee Only
$25–50 Million	$ 7,330	*	*
$50–100	5,500	*	*
$100–200	8,200	*	*
$200–500	10,230	$ 8,270	*
$500–1 Billion	12,050	10,500	*
$1–2	14,880	*	*
$2–5	18,800	*	*
$5–10	22,180	*	*
Over $10 Billion	19,150	23,000	*
Average	13,700	12,620	$550

† Assuming all meetings are attended
** Insufficient data*

Table 14

BOARDS OF DIRECTORS IN PUBLICLY HELD COMPANIES: Nonmanufacturing Industry Group
Percentage of companies compensating nonmanagement directors, by sales volume

SALES VOLUME	Retainer and Meeting Fee	Retainer Only	Meeting Fee Only	All Forms Combined
$10–25 Million	27%	18%	27%	72%
$25–50	67	25	8	100
$50–100	46	20	27	93
$100–200	53	27	12	92
$200–500	78	11	9	98
$500–1 Billion	68	22	8	98
$1–2	74	18	4	96
$2–5	100	0	0	100
$5–10	*	*	*	*
Over $10 Billion	100	0	0	100
Average	70	16	10	96

** Insufficient data*

Companies Using the Retainer-Only Method

Use of the retainer-only form of compensation was far more prevalent among durable goods manufacturers and nonmanufacturing companies than among nondurable goods manufacturers and financial services companies. With the exception of the nondurable goods manufacturing industry group, few of the largest companies used this method of compensation. While very few of the small and medium-sized nondurable goods manufacturing companies used this method, 38% of those with sales above $10 billion did. Directors in these companies received an average of $23,000 per annum—the highest compensation reported of any compensation method used. Findings on the retainer-only method coincided with those on the combined compensation method in that compensation increased with company size regardless of industry group. Nondurable goods manufacturers paid the largest average annual retainer, primarily because the largest companies that reported using this method were from these industries. The average retainer paid by financial services companies was less than half of that paid by the nondurable goods manufacturing companies. The largest average retainer was paid by the chemicals and petroleum industry, while the smallest was paid by the commercial banks.

Companies Using the Fee-Only Method

The results of the study showed that the fee-only method of compensation was used primarily by the smaller companies. Of the companies with sales above $1 billion, none in the manufacturing industries and only one-half of one percent in the nonmanufacturing industries reported using this method. Less than 2% of the financial services companies with assets greater than $2 billion were noted to pay only a meeting fee to their directors.

Financial services companies, which tend to have larger Boards and more frequent meetings than the other companies in the study, reported the most frequent use of the fee-only method of payment (26% compared to a maximum of 10% or less in the other industry groups). However, the average meeting fee paid by these companies was far lower than that paid by other industries.

Overall, Board members who were paid only a meeting fee earned several thousand dollars less than their counterparts, regardless of industry group. Assuming all meetings were attended, directors who were paid by this method earned an average of $3,760 in manufacturing companies, $2,580 in nonmanufacturing companies, and $2,240 in financial services companies. Directors who were paid by other methods of compensation earned over $10,000 in the manufacturing and nonmanufacturing industries and approximately $7,000 in the financial services industries.

Table 15

BOARDS OF DIRECTORS IN PUBLICLY HELD COMPANIES: Nonmanufacturing Industry Group
Average compensation of nonmanagement directors, by sales volume

SALES VOLUME	Retainer and Meeting Fee†	Retainer Only	Meeting Fee Only
$10–25 Million	$ 6,930	*	$400
$25–50	5,180	*	*
$50–100	5,670	$ 3,600	350
$100–200	7,960	5,870	500
$200–500	8,650	11,920	370
$500–1 Billion	10,420	12,150	460
$1–2	13,720	15,200	*
$2–5	14,520	*	*
$5–10	*	*	*
Over $10 Billion	21,580	*	*
Average	10,540	9,700	430

† Assuming all meetings are attended
** Insufficient data*

Table 16

BOARDS OF DIRECTORS IN PUBLICLY HELD COMPANIES: Financial Services Industry Group

Percentage of companies compensating nonmanagement directors, by assets

ASSETS	Retainer and Meeting Fee	Retainer Only	Meeting Fee Only	All Forms Combined
$10–25 Million	13%	0%	87%	100%
$25–50	50	20	30	100
$50–100	44	12	44	100
$100–200	38	15	47	100
$200–500	58	4	38	100
$500–1 Billion	66	10	19	95
$1–2	76	5	19	100
$2–5	91	0	9	100
$5–10	100	0	0	100
Over $10 Billion	100	0	0	100
Average	67	6	26	99

Table 17

BOARDS OF DIRECTORS IN PUBLICLY HELD COMPANIES: Financial Services Industry Group

Average compensation of nonmanagement directors, by assets

ASSETS	Retainer and Meeting Fee†	Retainer Only	Meeting Fee Only
$10–25 Million	*	*	$210
$25–50	$ 4,340	*	*
$50–100	9,080	*	250
$100–200	4,700	$5,800	270
$200–500	5,130	*	250
$500–1 Billion	7,230	*	250
$1–2	6,810	*	330
$2–5	7,670	*	550
$5–10	9,460	*	*
Over $10 Billion	14,510	*	*
Average	7,700	6,050	280

† Assuming all meetings are attended

** Insufficient data*

Other Compensation: Director Benefits and Expenses

Eighty-eight percent of the responding companies reported paying the expenses incurred by nonmanagement directors in attending meetings (approximately the same percentage as in the previous study). The incidence of payments of these expenses by industry group ranged from a low of 77% in the financial services industries to a high of 94% in the manufacturing industries. All responding companies in the food products, paper products, and real estate industries reported paying director expenses. Commercial banking and construction and contracting companies were least likely to pay these expenses (63% and 70%, respectively).

Although nonmanagement directors are not considered employees, they do in some instances receive company-paid benefits. The most common of these, liability insurance, was reported by 55% of the respondents and was most prevalent in the manufacturing industry group. Life insurance benefits were reported by 13% of the companies, and accidental death and dismemberment (AD&D) insurance was provided by 14%. Medical and dental programs were less common, offered by 6% and 3%, respectively. A likely explanation for this lack of coverage is that nonmanagement directors employed by other companies are usually included in the life, health, and AD&D insurance programs where they work.

Sixteen percent of the companies surveyed provided college matching gifts. Primarily, it was the larger companies that included directors in this program. It is likely that more of these companies offer college matching gift programs to their employees than do

Table 18

BOARDS OF DIRECTORS IN PUBLICLY HELD COMPANIES:
Average compensation of nonmanagement directors, by industry

INDUSTRY	Retainer and Meeting Fee†	Retainer Only	Meeting Fee Only
MANUFACTURING GROUP			
Durable Goods			
Basic Materials	$11,200	$ 3,730	*
Electrical Machinery	13,040	10,570	$610
Fabricated Metal Products	10,990	10,080	*
Instruments	8,600	12,670	*
Machinery	9,310	8,930	600
Primary Metals	13,930	14,170	*
Nondurable Goods			
Chemicals and Petroleum	16,550	19,800	*
Food Products	12,720	*	*
Paper Products	10,900	*	*
Publishing	12,070	*	*
Textiles and Apparel	11,490	*	530
Transportation Equipment	12,580	13,100	*
NONMANUFACTURING GROUP			
Business Services	11,640	10,930	690
Construction and Contracting	10,500	*	*
Mining	14,120	14,750	480
Retail Sales	8,900	8,750	280
Transportation	13,660	*	690
Utilities	9,340	9,690	*
Wholesale Trade	7,740	5,760	*
FINANCIAL SERVICES GROUP			
Banking (Commercial)	6,530	3,060	260
Banking (Thrift Institutions)	9,830	*	330
Financial Holding and Investment	12,590	*	410
Insurance	11,380	*	830
Real Estate	9,300	*	*
Average	11,130	10,820	500

† Assuming all meetings are attended ** Insufficient data*

smaller businesses. The highest incidence of this benefit was noted in the manufacturing industry group (22%), and the lowest incidence was observed in the financial services industry group (7%).

Twelve percent of the respondents reported giving their directors discounts on company products; however, very few provide stock purchase plans or stock options to their Board members.

Tables 19 through 22 provide data on payment of benefits and expenses to nonmanagement directors by company size for each industry group, and by individual industry.

Table 19

BOARDS OF DIRECTORS IN PUBLICLY HELD COMPANIES: Manufacturing Industry Group

Percentage of companies paying expenses and providing benefits, by sales volume

SALES VOLUME	Meeting Expenses	Liability Insurance	Life Insurance	Accidental Death and Dismemberment Insurance	Medical Insurance	Discount on Company Products	College Matching Gifts
Under $10 Million	100%	67%	0%	0%	0%	0%	0%
$10–25	100	50	8	8	0	17	0
$25–50	90	55	10	10	0	10	3
$50–100	91	46	6	14	9	9	9
$100–200	94	48	6	10	4	15	8
$200–500	94	65	14	18	3	11	11
$500–1 Billion	92	50	13	13	2	12	10
$1–2	95	77	20	18	5	16	48
$2–5	96	73	25	22	10	16	49
$5–10	100	69	23	23	8	15	62
Over $10 Billion	90	100	30	60	10	0	70
Average	94	61	14	17	5	12	22

Table 20

BOARDS OF DIRECTORS IN PUBLICLY HELD COMPANIES:
Nonmanufacturing Industry Group
Percentage of companies paying expenses and providing benefits, by sales volume

SALES VOLUME	Meeting Expenses	Liability Insurance	Life Insurance	Accidental Death and Dismemberment Insurance	Medical Insurance	Discount on Company Products	College Matching Gifts
$10–25 Million	73%	45%	0%	0%	0%	9%	0%
$25–50	83	50	8	0	8	8	0
$50–100	73	40	7	0	7	20	0
$100–200	81	50	4	8	8	23	0
$200–500	88	53	23	14	12	19	7
$500–1 Billion	97	57	19	14	14	19	14
$1–2	96	54	7	14	7	7	18
$2–5	90	86	19	24	14	10	48
$5–10	*	*	*	*	*	*	*
Over $10 Billion	100	60	40	40	0	20	60
Average	88	54	14	13	10	16	13

** Insufficient data*

Table 21

BOARDS OF DIRECTORS IN PUBLICLY HELD COMPANIES:
Financial Services Industry Group
Percentage of companies paying expenses and providing benefits, by assets

ASSETS	Meeting Expenses	Liability Insurance	Life Insurance	Accidental Death and Dismemberment Insurance	Medical Insurance	Discount on Company Products	College Matching Gifts
$10–25 Million	75%	38%	13%	0%	25%	13%	0%
$25–50	100	30	10	20	0	0	0
$50–100	78	44	0	22	0	0	0
$100–200	58	38	19	8	12	12	0
$200–500	73	35	0	4	4	4	4
$500–1 Billion	62	19	5	0	5	0	5
$1–2	81	57	5	10	0	14	5
$2–5	82	48	9	21	9	9	9
$5–10	92	85	8	23	0	0	31
Over $10 Billion	92	75	33	25	8	0	25
Average	77	45	9	12	6	6	7

Table 22

BOARDS OF DIRECTORS IN PUBLICLY HELD COMPANIES:
Percentage of companies paying expenses and providing benefits, by industry

INDUSTRY	Meeting Expenses	Liability Insurance	Life Insurance	Accidental Death and Dismemberment Insurance	Medical Insurance	Discount on Company Products	College Matching Gifts
MANUFACTURING GROUP							
Durable Goods							
Basic Materials	90%	73%	13%	23%	3%	17%	20%
Electrical Machinery	95	50	16	18	9	13	7
Fabricated Metal Products	91	59	22	22	9	16	25
Instruments	94	53	6	12	0	6	6
Machinery	89	58	24	13	4	4	9
Primary Metals	93	67	7	13	0	7	20
Nondurable Goods							
Chemicals and Petroleum	98	77	9	21	4	9	39
Food Products	100	50	15	8	0	15	27
Paper Products	100	67	6	22	0	0	44
Publishing	95	68	11	21	0	32	37
Textiles and Apparel	91	50	18	9	9	27	23
Transportation Equipment	93	67	13	13	7	7	20
NONMANUFACTURING GROUP							
Business Services	95	32	11	21	16	5	16
Construction and Contracting	70	50	10	0	0	10	20
Mining	96	50	13	8	17	4	17
Retail Sales	82	50	18	11	8	29	11
Transportation	93	66	10	10	21	28	7
Utilities	88	56	21	10	4	6	15
Wholesale Trade	94	59	0	18	0	29	6
FINANCIAL SERVICES GROUP							
Banking (Commercial)	63	47	9	7	7	8	6
Banking (Thrift Institutions)	89	37	11	16	5	5	5
Financial Holding and Investment	93	61	7	25	4	4	11
Insurance	87	39	13	13	8	5	11
Real Estate	100	14	0	14	0	0	0
Average	88	55	13	14	6	12	16

Management Directors

Traditionally, management directors do not receive extra compensation for their work on the Board since they are compensated as employees. In this year's study, only 15% of the publicly held survey respondents reported compensating their management directors, compared to 16% in our previous study. Financial services companies were most likely to provide compensation (22%); companies in the manufacturing industry reported the smallest incidence of payment (12%). Most companies that did compensate management directors did so using the meeting-fee-only method.

Tables 23 through 25 show the relative use of the three methods of compensation.

Companies Paying Both Retainers and Meeting Fees

Approximately 4% of the respondents paid both retainers and meeting fees to their management directors, compared to the 71% providing both forms of compensation to their nonmanagement directors. However, when the combination method was used and all meetings were attended, management directors in the manufacturing group received nearly the same level of payment ($11,840) as their nonmanagement counterparts ($12,520). Greater discrepancies in compensation were observed between management and nonmanagement directors within the nonmanufacturing industries ($8,250 and $10,540, respectively) and the financial services industries ($6,520 and $7,700, respectively).

Table 23

BOARDS OF DIRECTORS IN PUBLICLY HELD COMPANIES: Manufacturing Industry Group

Percentage of companies compensating management directors, by sales volume

SALES VOLUME	Retainer and Meeting Fee	Retainer Only	Meeting Fee Only	All Forms Combined
Under $10 Million	0%	0%	0%	0%
$10–25	0	0	8	8
$25–50	6	6	3	15
$50–100	0	0	14	14
$100–200	4	0	10	14
$200–500	1	6	8	15
$500–1 Billion	2	2	8	12
$1–2	5	2	9	16
$2–5	2	0	2	4
$5–10	0	0	0	0
Over $10 Billion	20	0	0	20
Average	3	2	7	12

Table 24

BOARDS OF DIRECTORS IN PUBLICLY HELD COMPANIES: Nonmanufacturing Industry Group

Percentage of companies compensating management directors, by sales volume

SALES VOLUME	Retainer and Meeting Fee	Retainer Only	Meeting Fee Only	All Forms Combined
$10–25 Million	0%	0%	27%	27%
$25–50	0	0	0	0
$50–100	7	0	13	20
$100–200	4	8	4	16
$200–500	7	5	11	23
$500–1 Billion	5	3	8	16
$1–2	4	0	0	4
$2–5	5	0	5	10
$5–10	*	*	*	*
Over $10 Billion	0	0	0	0
Average	5	3	8	16

** Insufficient data*

Table 25

BOARDS OF DIRECTORS IN PUBLICLY HELD COMPANIES: Financial Services Industry Group

Percentage of companies compensating management directors, by assets

ASSETS	Retainer and Meeting Fee	Retainer Only	Meeting Fee Only	All Forms Combined
$10–25 Million	0%	0%	38%	38%
$25–50	10	0	30	40
$50–100	22	0	0	22
$100–200	8	4	27	39
$200–500	4	8	11	23
$500–1 Billion	5	0	9	14
$1–2	5	0	19	24
$2–5	9	0	0	9
$5–10	8	0	8	16
Over $10 Billion	0	0	0	0
Average	7	2	13	22

Companies Using the Retainer-Only Method

The retainer-only method was the least prevalent of all methods of compensating management directors, reported by just over 2% of the respondents. In comparison, 13% of the companies reported using this method to compensate nonmanagement directors. This form of payment was reported most frequently by medium-sized companies, regardless of industry group. In the manufacturing and nonmanufacturing industry groups, the annual retainer paid to management directors averaged between $6,400 and $7,000, compared to $11,300 and $9,700, respectively, paid to nonmanagement directors in these companies. Too few financial services companies use the retainer-only method to permit a comparison to be made between management and nonmanagement compensation.

Companies Using the Fee-Only Method

As mentioned earlier, the fee-only method was the most prevalent form of compensation, reported by 9% of all respondents. Approximately 60% of all companies compensating management directors used this method. Company size did not appear to affect the incidence of these payments.

The average meeting fees paid to management directors in the manufacturing and nonmanufacturing industry groups ($380 and $360 per meeting, respectively) were substantially lower than the average paid to their nonmanagement counterparts ($540 and $430, respectively). In the financial services industries, however, management directors received substantially the same compensation per meeting ($290) as nonmanagement directors ($280).

Committee Compensation

Study findings showed that 82% of the nonmanagement directors and 4% of the management directors were compensated for serving on committees. Approximately half of the committee chairmen received higher compensation than other members of their committees. The meeting-fee-only method of payment was the most common. This method was used to compensate 66% of the committee chairmen for whom separate data were reported, 82% of the nonmanagement directors, and virtually all of the management directors. The combined method of payment was reported for 20% of the committee chairmen and 11% of the nonmanagement directors who were compensated for committee work. Only 14% of the chairmen and 7% of the nonmanagement directors were paid only a retainer.

On average, the highest level of committee compensation was paid when both a fee and a retainer were provided, and the highest payments went to committee chairmen. Overall, there was not a large difference between the compensation paid to members of different committees. Also, an analysis of the committee compensation data by industry group did not show large differences in the percentage of companies paying Board members for serving on committees, or the methods of compensation employed.

Tables 26, 28, 30, and 32 show the percentage of companies compensating Board members for committee work on each type of committee by industry group. Tables 27, 29, 31, and 33 present compensation data for each type of committee by industry group.

Table 26

BOARDS OF DIRECTORS IN PUBLICLY HELD COMPANIES:
Manufacturing Industry Group—Durable Goods
Percentage of companies compensating committees

	CHAIRMAN			NONMANAGEMENT DIRECTOR			MANAGEMENT DIRECTOR		
COMMITTEE	Retainer and Meeting Fee	Retainer Only	Meeting Fee Only	Retainer and Meeting Fee	Retainer Only	Meeting Fee Only	Retainer and Meeting Fee	Retainer Only	Meeting Fee Only
Audit	10%	9%	35%	10%	7%	62%	0%	0%	2%
Compensation	10	8	38	8	7	63	0	0	2
Nominating	8	5	35	9	8	58	0	0	7
Executive	3	7	30	9	7	61	0	0	9
Finance	8	4	40	10	4	68	0	0	2
Other	13	4	36	9	4	64	0	0	0
Average	9	7	35	9	7	62	0	0	4

Table 27

BOARDS OF DIRECTORS IN PUBLICLY HELD COMPANIES:
Manufacturing Industry Group—Durable Goods
Average compensation of committees

	CHAIRMAN			NONMANAGEMENT DIRECTOR			MANAGEMENT DIRECTOR		
COMMITTEE	Retainer and Meeting Fee†	Retainer Only	Meeting Fee Only	Retainer and Meeting Fee†	Retainer Only	Meeting Fee Only	Retainer and Meeting Fee†	Retainer Only	Meeting Fee Only
Audit	$4,680	$2,700	$530	$4,100	$2,270	$440	*	*	$350
Compensation	4,820	3,570	500	4,080	2,290	430	*	*	390
Nominating	6,730	4,030	460	5,710	2,980	440	*	*	370
Executive	3,950	3,290	630	4,560	3,410	480	*	*	320
Finance	4,580	*	670	4,540	*	460	*	*	*
Other	4,310	*	450	3,940	*	460	*	*	*
Average	4,830	3,320	530	4,370	2,680	450	*	*	340

† Assuming all meetings are attended ** Insufficient data*

Table 28

BOARDS OF DIRECTORS IN PUBLICLY HELD COMPANIES:
Manufacturing Industry Group—Nondurable Goods
Percentage of companies compensating committees

	CHAIRMAN			NONMANAGEMENT DIRECTOR			MANAGEMENT DIRECTOR		
COMMITTEE	Retainer and Meeting Fee	Retainer Only	Meeting Fee Only	Retainer and Meeting Fee	Retainer Only	Meeting Fee Only	Retainer and Meeting Fee	Retainer Only	Meeting Fee Only
Audit	16%	12%	38%	11%	8%	68%	0%	0%	1%
Compensation	16	11	36	10	6	69	0	1	2
Nominating	21	8	37	14	6	67	0	2	2
Executive	11	4	25	10	6	59	0	1	5
Finance	9	11	40	9	9	74	0	0	0
Other	17	7	33	15	7	63	0	0	2
Average	15	9	34	11	7	66	0	1	2

Table 29

BOARDS OF DIRECTORS IN PUBLICLY HELD COMPANIES:
Manufacturing Industry Group—Nondurable Goods
Average compensation of committees

	CHAIRMAN			NONMANAGEMENT DIRECTOR			MANAGEMENT DIRECTOR		
COMMITTEE	Retainer and Meeting Fee†	Retainer Only	Meeting Fee Only	Retainer and Meeting Fee†	Retainer Only	Meeting Fee Only	Retainer and Meeting Fee†	Retainer Only	Meeting Fee Only
Audit	$6,700	$5,810	$500	$5,500	$4,180	$470	*	*	*
Compensation	6,730	6,890	490	6,050	4,850	460	*	*	*
Nominating	5,320	4,400	520	5,950	1,880	480	*	*	*
Executive	7,810	3,630	460	6,610	4,000	480	*	*	$600
Finance	*	6,000	580	3,180	*	520	*	*	*
Other	5,130	2,670	480	4,910	1,500	510	*	*	*
Average	6,740	5,600	500	5,690	4,600	480	*	$1,670	520

† Assuming all meetings are attended ** Insufficient data*

Table 30

BOARDS OF DIRECTORS IN PUBLICLY HELD COMPANIES:
Nonmanufacturing Industry Group
Percentage of companies compensating committees

	CHAIRMAN			NONMANAGEMENT DIRECTOR			MANAGEMENT DIRECTOR		
COMMITTEE	Retainer and Meeting Fee	Retainer Only	Meeting Fee Only	Retainer and Meeting Fee	Retainer Only	Meeting Fee Only	Retainer and Meeting Fee	Retainer Only	Meeting Fee Only
Audit	11%	6%	27%	8%	7%	63%	0%	0%	4%
Compensation	10	6	27	8	6	63	0	1	4
Nominating	10	5	31	5	3	77	0	0	6
Executive	5	3	20	9	6	54	0	2	7
Finance	9	7	30	4	2	67	0	0	7
Other	12	9	28	14	2	72	0	0	7
Average	10	6	27	8	5	64	0	0	5

Table 31

BOARDS OF DIRECTORS IN PUBLICLY HELD COMPANIES:
Nonmanufacturing Industry Group
Average compensation of committees

	CHAIRMAN			NONMANAGEMENT DIRECTOR			MANAGEMENT DIRECTOR		
COMMITTEE	Retainer and Meeting Fee†	Retainer Only	Meeting Fee Only	Retainer and Meeting Fee†	Retainer Only	Meeting Fee Only	Retainer and Meeting Fee†	Retainer Only	Meeting Fee Only
Audit	$4,900	$2,830	$400	$4,100	$3,230	$390	*	*	$420
Compensation	5,170	3,470	410	3,970	3,290	410	*	*	410
Nominating	4,780	3,680	440	5,100	*	410	*	*	230
Executive	5,930	4,670	420	5,570	7,070	420	*	*	360
Finance	5,000	3,870	400	3,000	*	410	*	*	330
Other	5,500	4,900	400	3,250	*	410	*	*	300
Average	5,130	3,630	410	4,270	4,030	410	*	$4,670	350

† Assuming all meetings are attended ** Insufficient data*

Table 32

BOARDS OF DIRECTORS IN PUBLICLY HELD COMPANIES:
Financial Services Industry Group
Percentage of companies compensating committees

	CHAIRMAN			NONMANAGEMENT DIRECTOR			MANAGEMENT DIRECTOR		
COMMITTEE	Retainer and Meeting Fee	Retainer Only	Meeting Fee Only	Retainer and Meeting Fee	Retainer Only	Meeting Fee Only	Retainer and Meeting Fee	Retainer Only	Meeting Fee Only
Audit	10%	9%	42%	5%	6%	79%	0%	0%	4%
Compensation	9	8	45	2	7	82	0	1	6
Nominating	5	4	40	2	2	89	0	0	4
Executive	5	5	30	12	4	67	1	1	10
Finance	5	3	26	16	3	63	0	0	5
Other	9	6	28	9	3	79	0	0	9
Average	8	7	37	7	5	77	0	1	7

Table 33

BOARDS OF DIRECTORS IN PUBLICLY HELD COMPANIES:
Financial Services Industry Group
Average compensation of committees

	CHAIRMAN			NONMANAGEMENT DIRECTOR			MANAGEMENT DIRECTOR		
COMMITTEE	Retainer and Meeting Fee†	Retainer Only	Meeting Fee Only	Retainer and Meeting Fee†	Retainer Only	Meeting Fee Only	Retainer and Meeting Fee†	Retainer Only	Meeting Fee Only
Audit	$ 4,450	$3,430	$290	$5,330	$1,700	$280	*	*	$150
Compensation	3,450	3,250	290	7,000	1,340	280	*	*	220
Nominating	3,570	*	330	*	*	300	*	*	*
Executive	5,800	2,750	280	4,720	1,880	290	*	*	220
Finance	*	*	300	5,180	*	540	*	*	*
Other	4,830	3,530	310	5,610	*	280	*	*	150
Average	4,280	3,140	300	5,440	1,750	300	$3,100	$1,280	210

† Assuming all meetings are attended ** Insufficient data*

Boards of Directors in Privately Held Companies

Organization of the Board

Because privately held companies are not faced with the same governance requirements as publicly owned companies, the organization of their Boards of Directors is substantially different. Most noticeably, Boards of privately held companies have a much higher concentration of management directors than do publicly held companies. They also have a much higher proportion of nonmanagement directors who are affiliated with the company through business dealings or family ties.

Table 34

BOARDS OF DIRECTORS IN PRIVATELY HELD COMPANIES: Manufacturing Industry Group

Average composition and average number of meetings per year, by sales volume

SALES VOLUME	Management Directors	Nonmanagement Directors	Number of Directors	Number of Meetings per Year
Under $10 Million	34%	66%	6	3
$10–25	50	50	7	4
$25–50	38	62	8	3
$50–100	43	57	8	4
$100–200	42	58	10	5
$200–500	52	48	11	5
$500–1 Billion	58	42	8	5
Average	44	56	8	4

On average, 45% of the Board members of the privately held companies in our study were management directors, and 22% of the nonmanagement directors were affiliated. These figures compare to 28% and 9%, respectively, in publicly owned companies. Management directors accounted for 54% of the Boards of nonmanufacturing companies, 44% of the Boards of manufacturing companies, and 33% of the Boards of financial services companies.

Number of Meetings and Members

The study findings showed that privately held companies had fewer Board members and held fewer meetings per year than did publicly held companies. The average privately held company reported a Board of Directors of eight members who meet four times a year, compared to a Board of thirteen directors who meet seven times a year in publicly held companies. As with publicly held companies, the financial services industry group had more Board members and held more frequent meetings than did the other industry groups.

Tables 34 through 36 show data on the size and composition of the Boards of privately held companies and the average number of meetings per year.

Table 35

BOARDS OF DIRECTORS IN PRIVATELY HELD COMPANIES: Nonmanufacturing Industry Group

Average composition and average number of meetings per year, by sales volume

SALES VOLUME	Management Directors	Nonmanagement Directors	Number of Directors	Number of Meetings per Year
Under $10 Million	62%	38%	5	3
$10–25	52	48	7	5
$25–50	56	44	9	3
$50–100	72	28	6	5
$100–200	43	57	8	5
$200–500	63	38	8	5
$500–1 Billion	59	41	9	10
Average	54	46	8	4

Table 36

BOARDS OF DIRECTORS IN PRIVATELY HELD COMPANIES: Financial Services Industry Group

Average composition and average number of meetings per year, by assets

ASSETS	Management Directors	Nonmanagement Directors	Number of Directors	Number of Meetings per Year
Under $10 Million	54%	46%	4	3
$10–25	48	52	9	5
$25–50	73	27	6	4
$50–100	39	61	12	7
$100–200	23	77	11	7
$200–500	28	72	16	10
$500–1 Billion	13	88	18	9
$1–5	53	47	13	3
Average	33	67	11	6

Committees of the Board

As we found in our last study, far fewer privately held companies reported having committees than did publicly held companies. The Compensation Committee was the most common among the privately held companies, reported by 31% of the respondents. This was followed by the Audit and Executive Committees, reported by 29% and 28% of the companies, respectively. Only 7% of the privately held companies had Nominating Committees, and 10% had Finance Committees.

The incidence of each committee in privately held companies was found to be greater in this study than in our previous study. Furthermore, we found that the average committee was larger. Tables 37 through 39 show the percentages of companies having each type of committee by company size and industry group.

Table 37

BOARDS OF DIRECTORS IN PRIVATELY HELD COMPANIES: Manufacturing Industry Group

Percentage having committees, by sales volume

SALES VOLUME	Audit	Compensation	Nominating	Executive	Finance	Other
Under $10 Million	20%	20%	7%	7%	0%	7%
$10–25	15	18	6	15	3	6
$25–50	30	41	7	30	7	11
$50–100	32	48	8	40	12	0
$100–200	33	33	0	17	8	8
$200–500	58	58	17	42	17	17
$500–1 Billion	0	0	0	33	0	0
Average	28	34	7	26	8	7

Table 38

BOARDS OF DIRECTORS IN PRIVATELY HELD COMPANIES:
Nonmanufacturing Industry Group
Percentage having committees, by sales volume

SALES VOLUME	Audit	Compensation	Nominating	Executive	Finance	Other
Under $10 Million	0%	17%	0%	17%	0%	0%
$10–25	15	46	8	23	0	8
$25–50	38	31	19	31	13	13
$50–100	17	8	0	17	17	8
$100–200	45	36	9	36	9	0
$200–500	20	20	0	40	0	0
Average	24	29	8	26	8	6

Table 39

BOARDS OF DIRECTORS IN PRIVATELY HELD COMPANIES:
Financial Services Industry Group
Percentage having committees, by assets

ASSETS	Audit	Compensation	Nominating	Executive	Finance	Other
Under $10 Million	0%	0%	0%	0%	0%	0%
$10–25	33	33	17	33	17	0
$25–50	0	0	0	0	0	0
$50–100	*	*	*	*	*	*
$100–200	63	25	0	75	38	25
$200–500	57	43	14	43	0	29
$500–1 Billion	75	50	0	25	50	25
$1–2	33	33	0	67	33	0
Average	36	25	7	39	18	11

**Insufficient data*

Director Compensation

Nonmanagement Directors

Sixty-two percent of the privately held companies in this study reported compensating their nonmanagement Board members. Companies in both the manufacturing and financial services industry groups were far more likely to compensate these directors than were nonmanufacturing companies (66%, 67%, and 47%, respectively).

While the meeting-fee-only method of payment was by far the most popular among financial services companies, both manufacturing and nonmanufacturing companies reported using the combined method most often. In these industry groups, the meeting-fee-only method was only slightly less popular than the combined method of payment, while the retainer-only method was reported by fewer than half as many companies as either the combined or meeting-fee-only method. Tables 40 through 42 show the prevalence of each method of payment by company size for each industry group.

Table 40

BOARDS OF DIRECTORS IN PRIVATELY HELD COMPANIES: Manufacturing Industry Group

Percentage of companies compensating nonmanagement directors, by sales volume

SALES VOLUME	Retainer and Meeting Fee	Retainer Only	Meeting Fee Only	All Forms Combined
Under $10 Million	7%	0%	43%	50%
$10–25	15	15	37	67
$25–50	26	15	33	74
$50–100	50	8	13	71
$100–200	26	8	8	42
$200–500	46	36	0	82
$500–1 Billion	0	33	33	66
Average	28	13	25	66

Table 41

BOARDS OF DIRECTORS IN PRIVATELY HELD COMPANIES:
Nonmanufacturing Industry Group
Percentage of companies compensating nonmanagement directors, by sales volume

SALES VOLUME	Retainer and Meeting Fee	Retainer Only	Meeting Fee Only	All Forms Combined
Under $10 Million	0%	0%	50%	50%
$10–25	15	8	31	54
$25–50	34	13	0	47
$50–100	10	0	10	20
$100–200	40	10	20	70
$200–500	0	20	20	40
Average	21	8	18	47

Table 42

BOARDS OF DIRECTORS IN PRIVATELY HELD COMPANIES:
Financial Services Industry Group
Percentage of companies compensating nonmanagement directors, by assets

ASSETS	Retainer and Meeting Fee	Retainer Only	Meeting Fee Only	All Forms Combined
Under $10 Million	0%	0%	33%	33%
$10–25	0	20	60	80
$25–50	0	25	25	50
$50–100	*	*	*	*
$100–200	25	0	63	88
$200–500	57	0	29	86
$500–1 Billion	25	0	50	75
$1–5	0	0	0	0
Average	21	5	41	67

** Insufficient data*

Table 43

BOARDS OF DIRECTORS IN PRIVATELY HELD COMPANIES: Average compensation of nonmanagement directors, by industry group

INDUSTRY GROUP	Retainer and Meeting Fee†	Retainer Only	Meeting Fee Only
Manufacturing	$5,420	$5,190	$530
Nonmanufacturing	4,460	5,070	470
Financial Services	5,400	*	260

† Assuming all meetings are attended
** Insufficient data*

Table 44

BOARDS OF DIRECTORS IN PRIVATELY HELD COMPANIES: Percentage of companies paying expenses and benefits to nonmanagement directors

Meeting Expenses	60%
Liability Insurance	27
Life Insurance	2
Accidental Death and Dismemberment Insurance	4
Medical Insurance	4
Dental Insurance	2
Stock Purchase	6
Stock Options	5
Discount on Company Products	10
College Matching Gifts	2
Other	6

Meeting fees paid to nonmanagement directors by privately held companies in each industry group were on a par with those paid by publicly held companies. On an overall basis, when retainers were used, compensation was approximately half as large as that paid by publicly held companies ($5,180 versus $10,930 when both retainers and meeting fees were paid, and $5,160 versus $9,951 when only retainers were paid).

Of the privately held companies surveyed, the manufacturing industry group paid the highest meeting fees, and the financial services industry group paid the lowest. Compensation to nonmanagement directors who were paid by a combination of retainer and meeting fee was comparable in all industry groups. In general, compensation increased with company size. Table 43 shows average compensation paid to nonmanagement directors by method of payment and industry group.

In general, privately held companies were less likely to pay meeting expenses and benefits to nonmanagement directors than were publicly held companies. For example, only 60% paid meeting expenses (compared to 88%), and 27% paid liability insurance (compared to 55%). However, more privately held companies provided stock options (5% versus 3%) and stock purchase plans (6% versus 2%) than did publicly held companies, and nearly the same percentage of private and public companies (10% versus 12%) reported offering a discount on company products. Table 44 presents a summary of the benefits paid to nonmanagement directors in privately held companies.

Management Directors

As our last study revealed, management directors in privately held companies were somewhat more likely to receive compensation than were those in publicly held companies (16% versus 12%). As with publicly held companies, the meeting-fee-only method of payment was the most commonly used form, reported by 11% of the respondents, compared to 2% and 3% for the other payment methods. Overall, the percentage of management directors in privately held companies who received compensation (16%) was lower than that reported in our previous study (20%). Compensation paid to management directors in privately held companies was substantially below that paid to nonmanagement directors ($3,790 versus $5,180 when both retainers and meeting fees were paid, $2,740 versus $5,160 when only retainers were paid, and $340 versus $450 when only meeting fees were paid).

Table 45 shows the percentage of privately held companies compensating their management directors for Board work. Table 46 shows average compensation paid to management directors in privately held companies by method of payment.

Table 45

BOARDS OF DIRECTORS IN PRIVATELY HELD COMPANIES:
Percentage of companies compensating management directors

Retainer and Meeting Fee	2%
Retainer Only	3
Meeting Fee Only	11
All Forms Combined	16

Table 46

BOARDS OF DIRECTORS IN PRIVATELY HELD COMPANIES:
Average compensation of management directors, by method of payment

Retainer and Meeting Fee†	$3,790
Retainer Only	2,740
Meeting Fee Only	340

† Assuming all meetings are attended

Committee Compensation

Over half of the privately held companies surveyed provided compensation to their nonmanagement directors for committee work, while only 4% compensated management directors. Most payments for committee work were in the form of a meeting fee only. Table 47 shows the percentage of privately held companies providing each form of compensation to committee chairmen and to management and nonmanagement directors.

The study findings showed that the amount of the meeting fee paid did not vary greatly for committee chairmen ($330), nonmanagement directors ($360), and management directors ($340). When either the combined method or the retainer-only form of payment was used, however, committee chairmen were paid more than nonmanagement directors. Table 48 shows the average amount of compensation paid to members of each committee for chairmen, nonmanagement directors, and management directors.

Table 47

BOARDS OF DIRECTORS IN PRIVATELY HELD COMPANIES:

Percentage of companies compensating committees

	CHAIRMAN			NONMANAGEMENT DIRECTOR			MANAGEMENT DIRECTOR		
COMMITTEE	Retainer and Meeting Fee	Retainer Only	Meeting Fee Only	Retainer and Meeting Fee	Retainer Only	Meeting Fee Only	Retainer and Meeting Fee	Retainer Only	Meeting Fee Only
Audit	6%	4%	26%	4%	4%	51%	0%	0%	1%
Compensation	4	3	21	3	4	44	0	0	3
Nominating	0	0	0	0	0	35	0	0	0
Executive	1	1	12	3	6	43	1	0	4
Finance	4	9	17	4	0	48	0	0	0
Other	6	0	26	6	0	61	6	0	6
Average	4	3	19	3	4	46	1	0	3

Table 48

BOARDS OF DIRECTORS IN PRIVATELY HELD COMPANIES:

Average compensation of committees

	CHAIRMAN			NONMANAGEMENT DIRECTOR			MANAGEMENT DIRECTOR		
COMMITTEE	Retainer and Meeting Fee†	Retainer Only	Meeting Fee Only	Retainer and Meeting Fee†	Retainer Only	Meeting Fee Only	Retainer and Meeting Fee†	Retainer Only	Meeting Fee Only
Audit	$2,790	$2,930	$360	$2,780	$2,100	$360	*	*	*
Compensation	3,930	*	370	*	1,270	370	*	*	*
Nominating	*	*	*	*	*	460	*	*	*
Executive	*	*	240	*	2,930	350	*	*	$350
Finance	*	*	220	*	*	370	*	*	*
Other	*	*	380	*	*	320	*	*	*
Average	4,300	4,580	330	3,110	2,180	360	*	*	340

† Assuming all meetings are attended ** Insufficient data*

Grateful acknowledgment is made to David Spindel and the Freelance Photographers Guild, Inc. for the photograph of the eagle on the cover of this book.